

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00
DODE-00 EB-08 FRB-01 H-02 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-02 AID-05 SS-15 STR-04
ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 OMB-01 FEA-01
/093 W

-----020435Z 000162 /61

R 010822Z APR 77

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 6713

INFO AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

UNCLAS KUALA LUMPUR 2029

HONG KONG FOR TREASURY REP SHARPE

E.O. 11652: N/A

TAGS: EARL, ECON, EFIN, MY

SUBJECT: MALAYSIAN ECONOMY: PERFORMANCE IN 1976 AND OUTLOOK FOR
1977

REF: 76 KUALA LUMPUR 6383

1. SUMMARY: EXPORT DEMAND CAUSED MALAYSIAN ECONOMY TO
REBOUND STRONGLY IN 1976 WITH REAL GNP INCREASE OF 11.3
PERCENT AND INFLATION OF 2.6 PERCENT. RECORD TRADE
SURPLUS RESULTED IN INTERNATIONAL RESERVES INCREASING
US\$956 MILLION TO LEVEL SUFFICIENT TO FINANCE 7 AND THREE-
FOURTHS MONTHS OF RETAINED IMPORTS. CURRENT PRICES PER
CAPITA GNP INCREASED 20.5 PERCENT TO US\$891. SOFT SOFT
WAS 4 PERCENT INCREASE IN REAL PRIVATE FIXED INVESTMENT.
FOR 1977, REAL GNP PROJECTED INCREASE 9 PERCENT WITH
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INFLATION BETWEEN 4-5 PERCENT. RETURN OF BUSINESS
CONFIDENCE REMAINS TO BE DEMONSTRATED. END SUMMARY.

2. CENTRAL BANK ANNUAL REPORT, USING LATEST PRELIMINARY
FIGURES, SHOWS EVEN STRONGER REBOUND OF MALAYSIAN ECONOMY
DURING 1976 THAN EARLIER MINISTRY FINANCE ESTIMATES
REPORTED REFTEL. REAL GNP INCREASED 11.3 PERCENT,

INFLATION 2.6 PERCENT, REAL GDP INCREASED 12.0 PERCENT. SECTORS: AGRICULTURE, FORESTRY AND FISHING 16 PERCENT INCREASE (MOSTLY RUBBER AND TIMBER), MINING 31 PERCENT INCREASE (MOSTLY PETROLEUM), MANUFACTURING 18 PERCENT INCREASE (MOSTLY WOOD, TEXTILE AND ELECTRONICS), CONSTRUCTION 7 PERCENT INCREASE, SERVICES 8 PERCENT INCREASE. EMPLOYMENT INCREASED 3.5 PERCENT TO 4.1 MILLION. UNEMPLOYMENT DECLINED marginally to 6.8 PERCENT. GROSS EXPORTS INCREASED 45.5 PERCENT (REFLECTING 23 PERCENT INCREASE IN PRICES AND 13.3 PERCENT INCREASE IN VOLUME) TO REACH NEW PEAK OF M\$13.4 BILLION. GROSS IMPORTS INCREASED 16.6 PERCENT (REFLECTING 2.5 PERCENT INCREASE IN PRICES AND 13.7 PERCENT INCREASE IN VOLUME) TO REACH M\$10.0 BILLION. PER CAPITA GNP IN CURRENT PRICES INCREASED 20.5 PERCENT TO M\$2,184 OR US\$891.

3. BALANCE OF PAYMENTS. MERCHANDISE ACCOUNT (NET BASIS) SURPLUS M\$3,715 MILLION; SERVICES DEFICIT M\$1,835; TRANSFERS M\$145 MILLION DEFICIT; CURRENT ACCOUNT SURPLUS M\$1,735; CAPITAL ACCOUNT (NET) M\$933 MILLION SURPLUS; BASIC BALANCE M\$2,668 MILLION SURPLUS. NET PRIVATE FINANCIAL CAPITAL M\$175 MILLION DEFICIT AND NET ERRORS AND OMISSIONS OF M\$439 MILLION DEFICIT RESULTS IN OVERALL BALANCE OF PAYMENTS SURPLUS OF M\$2,054. INCLUSION OF IMF RESOURCES OF M\$265 MILLION RESULTS IN INCREASE IN INTERNATIONAL RESERVES OF M\$2,319 MILLION OR ABOUT US\$946 MILLION. NET CENTRAL BANK INTERNATIONAL RESERVES REACHED M\$6,249 AT END 1976, SUFFICIENT TO FINANCE 7 AND THREE-FOURTHS MONTHS OF RETAINED IMPORTS AT CURRENT LEVEL.

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4. OUTLOOK FOR 1977. REAL INCREASE GNP PROJECTED TO BE 9 PERCENT. INFLATION BETWEEN 4-5 PERCENT. SLOWER RATE OF GROWTH OF FOREIGN DEMAND EXPECTED RESULT IN EXPORTS INCREASING 13 PERCENT. PICK-UP IN DOMESTIC EXPENDITURE AND STOCK BUILDUP EXPECTED RESULT IN IMPORTS INCREASING 30 PERCENT. SMALL SURPLUS ANTICIPATED ON MERCHANDISE ACCOUNT AND ON CURRENT ACCOUNT, PLUS NET INFLOWS FROM OFFICIAL BORROWINGS AND CORPORATE INVESTMENT EXPECTED MAINTAIN TRADITIONAL BALANCE OF PAYMENTS STRENGTH.

5. COMMENT: NOTABLE SOFT SPOT IN 1976 PERFORMANCE WAS 4 PERCENT PRIVATE SECTOR INVESTMENT AGAINST 10 PERCENT PROJECTED. THIS ATTRIBUTABLE IN PART, OF COURSE, TO FLATNESS IN RECOVERY OF WORLD ECONOMY. CENTRAL BANK SURVEY SHOWS 16 PERCENT OF MANUFACTURING INDUSTRIES OPERATING AT BETWEEN 91 AND 100 PERCENT OF CAPACITY IN DECEMBER 1976 AND 32 PERCENT IN DECEMBER 1977. BY END 1977, CAPACITY UTILIZATION BETWEEN 71 AND 85 PERCENT EXPECTED TO BE REACHED BY 85 PERCENT OF FIRMS.

SOFT PRIVATE SECTOR INVESTMENT ALSO RELATED TO UNSATISFACTORY
INVESTMENT CLIMATE WHICH GOM ATTEMPTING TO ADDRESS WITH AS
YET MIXED RESULTS.
UNDERHILL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS, ECONOMIC TRENDS
Control Number: n/a
Copy: SINGLE
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770114-0050
Format: TEL
From: KUALA LUMPUR
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770499/aaaadibo.tel
Line Count: 120
Litigation Code IDs:
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Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
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Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 KUALA LUMPUR 6383
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 21-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2928885
Secure: OPEN
Status: NATIVE
Subject: MALAYSIAN ECONOMY: PERFORMANCE IN 1976 AND OUTLOOK FOR 1977
TAGS: ECON, EFIN, MY
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a97c07ac-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009